

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 695 - SB 1455

March 28, 2019

SUMMARY OF ORIGINAL BILL: Exempts from state and local sales and use tax any sales of public safety and public works-related goods made directly to a nonprofit property owner association that has received a determination of exemption from the internal revenue service under the Internal Revenue Code § 501(c)(4). Requires such exempt association to also hold a certification of exemption issued by the Department of Revenue (DOR). Stipulates that such sales of public safety or public works-related goods made to an independent contractor associated with any such exempt association is not eligible for such exemption.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – Recurring decreases in state and local sales and use tax revenue; the extent of which is dependent upon several unknown factors and cannot be reasonably determined.

SUMMARY OF AMENDMENT (006594): Adds language to the bill which defines “public safety or public works-related good” as equipment and supplies used:

- In the construction or maintenance of utilities, roads, culverts, curbs, sidewalks, parks, landscaping, docks and dock facilities, sewage and wastewater systems, and flood control and drainage systems, including storm water sewers and drains; and
- For firefighting, security, and emergency medical services, including fire alarm and emergency alert systems.

Limits the proposed exemption to \$25,000 in sales and use taxes each year that would otherwise be imposed.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue - \$24,100

Decrease Local Revenue - \$9,800

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Assumptions for the bill as amended:

- The number of applicable nonprofit property owner associations which will be qualified for the exemption created by this legislation and the number of such associations that will pursue an exemption certificate issued by DOR is unknown.
- However, the proposed legislation limits the exemption to \$25,000 in sales and use taxes each year that would otherwise be imposed.
- It is assumed the \$25,000 threshold applies to state sales tax revenue that would otherwise be collected, and that the maximum \$25,000 in state sales tax exemptions will be awarded each year.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Taxable sales that will be exempt from the state and local sales tax each year are estimated to be \$357,143 ($\$25,000 / 7.0\%$).
- The recurring decrease in state sales tax revenue, beginning in FY19-20, is estimated to be \$24,096 [$(\$357,143 \times 7.0\%) - (\$357,143 \times 7.0\% \times 3.617\%)$].
- The recurring decrease in local sales tax revenue, beginning in FY19-20, is estimated to be \$9,833 [$(\$357,143 \times 2.5\%) + (\$357,143 \times 7.0\% \times 3.617\%)$].

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

/jdb